



GOMB

**Sales Tax -
All About That Base**

Presentation Outline

- Tax base x tax rate = tax revenue
- Other tax bases (income tax and gas tax)
- Sales tax base and rate

Bottom line – Sales tax base is narrowing, state needs to address this challenge

A Few Questions to Consider

- Why doesn't the new revenue from growth cover the basic costs of growth?
- At what point do we run out of sales tax rate “headroom” (economic and political capacity to increase sales tax rates)?

Tax Base x Rate(s) = Tax Revenue

- Focus often just on revenue
- But how revenue is generated is critically important
 - **Base** = what is taxed (some measure of economic activity or value)
 - **Rate** = level at which it is taxed
- Policymakers should pay attention to the base and rate, as well as revenues
 - For a given amount of revenue, different base/rate combinations can have dramatically different effects on the economy

Public Finance Experts Widely Recommend Broad Base and Low Rates

Broad base and low rates

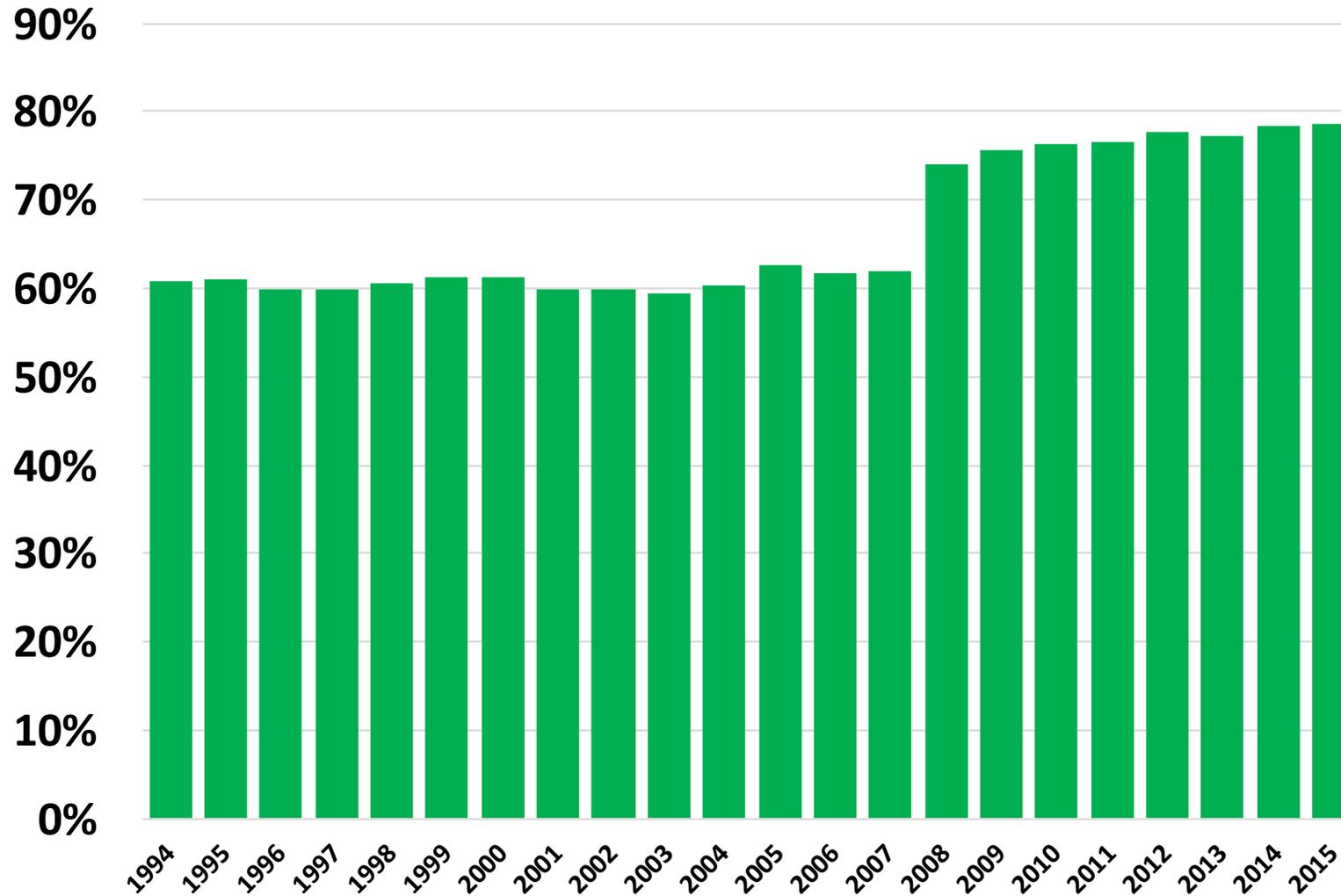


v. Narrow base and high rates

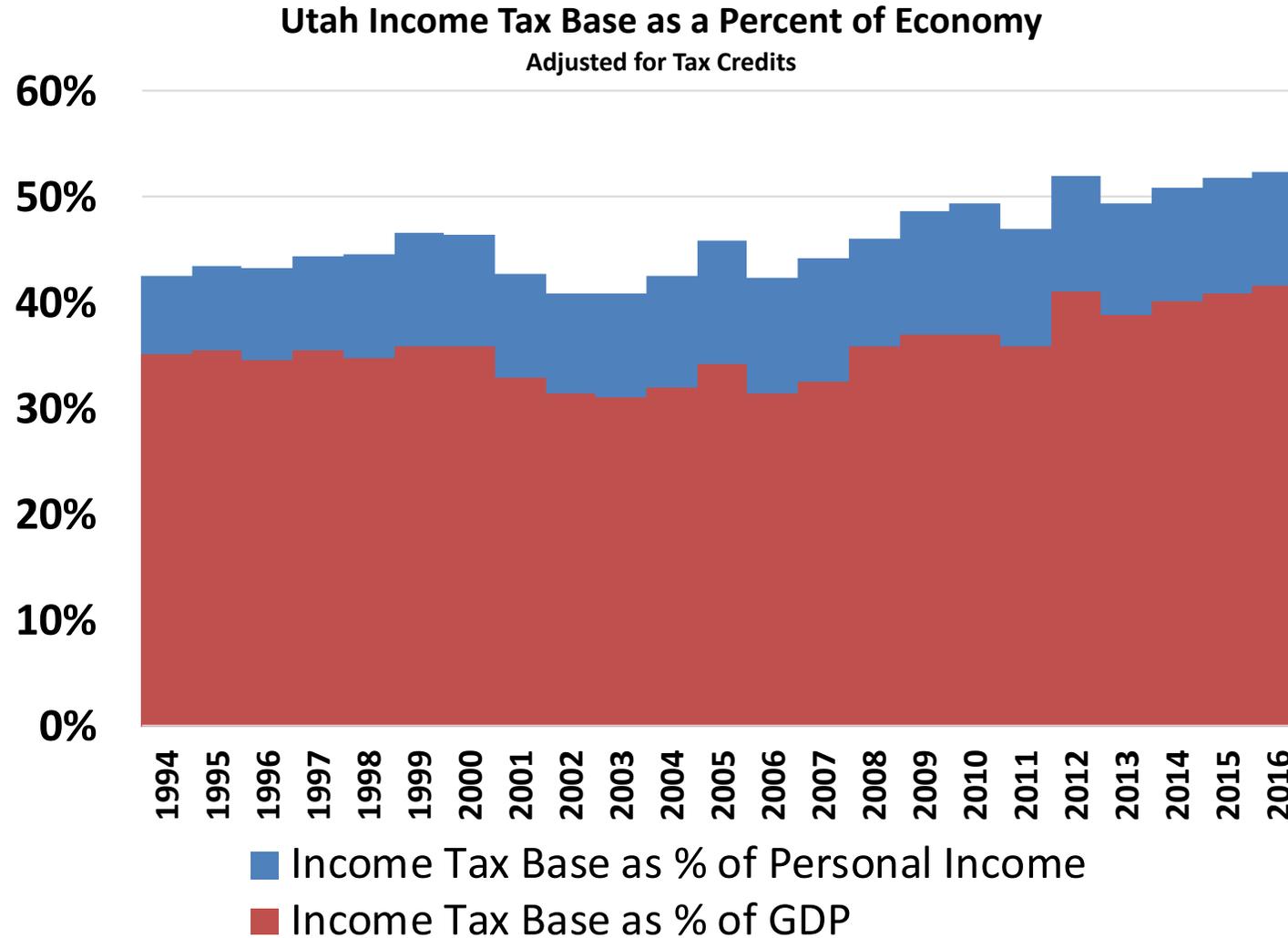


Individual Income Tax Changes (2008) Broader Base and Lower Rate

Income Tax Base (Tax-Credit-Adjusted) as % of Apportioned FAGI



Individual Income Tax Base - Well Aligned with Economy

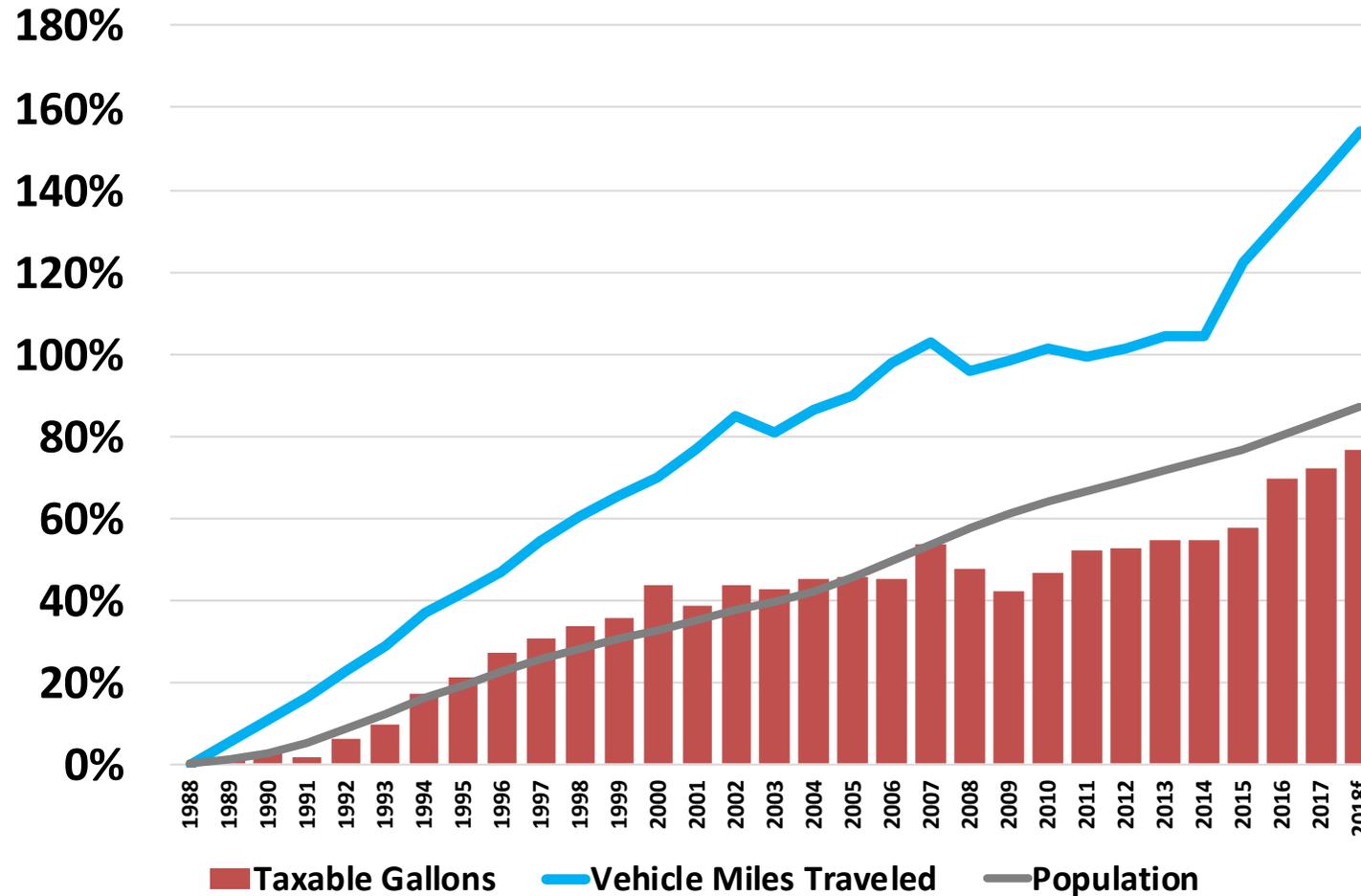


Individual Income Tax Base Lessons

- Utah's individual income tax paces with the economy
- Broadening the tax base can allow a sizable reduction in tax rates
- While challenging, it is possible to broaden a major tax base while lowering the tax rate

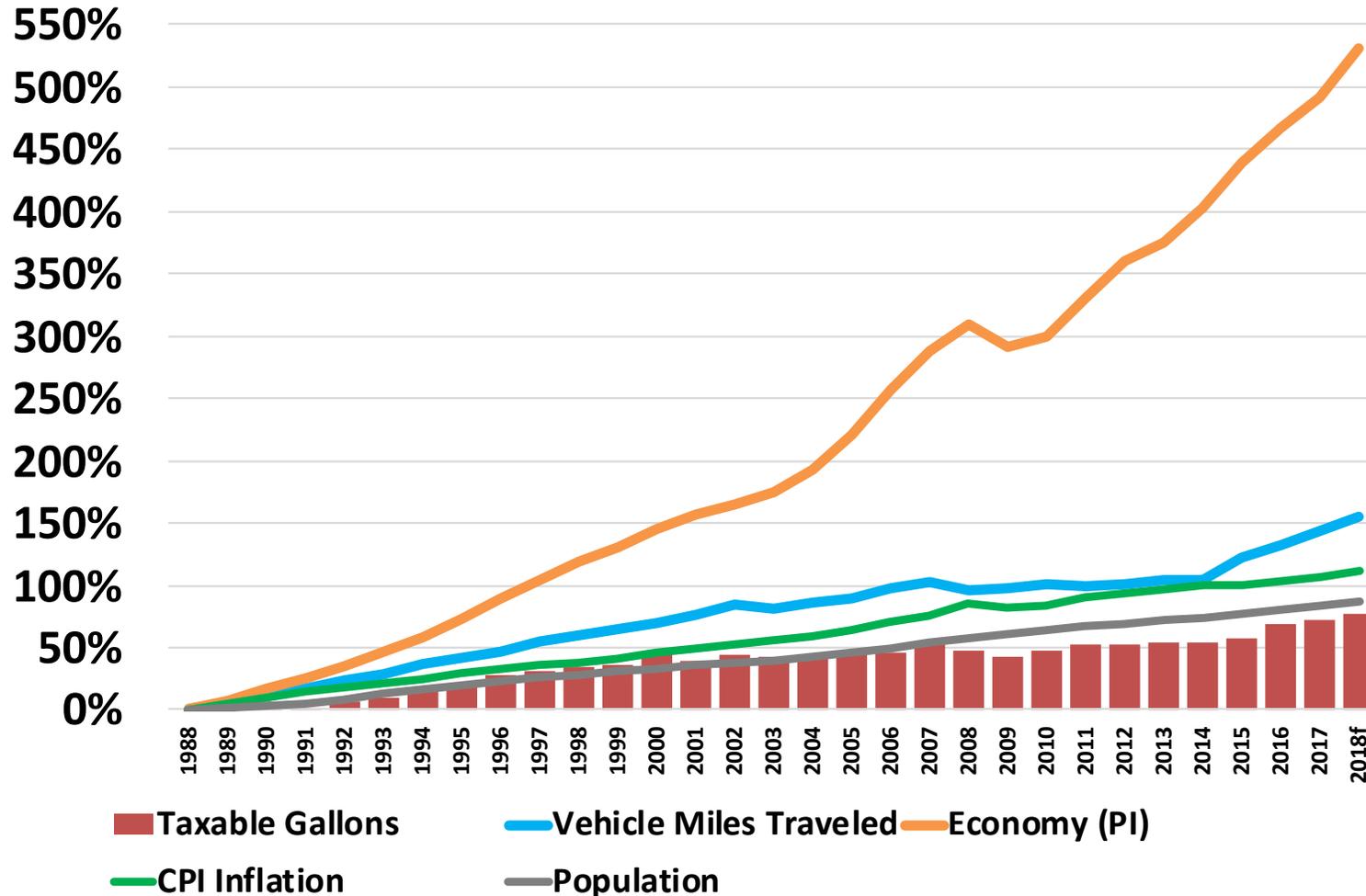
Gas Tax Base

Growth Rate Since 1988



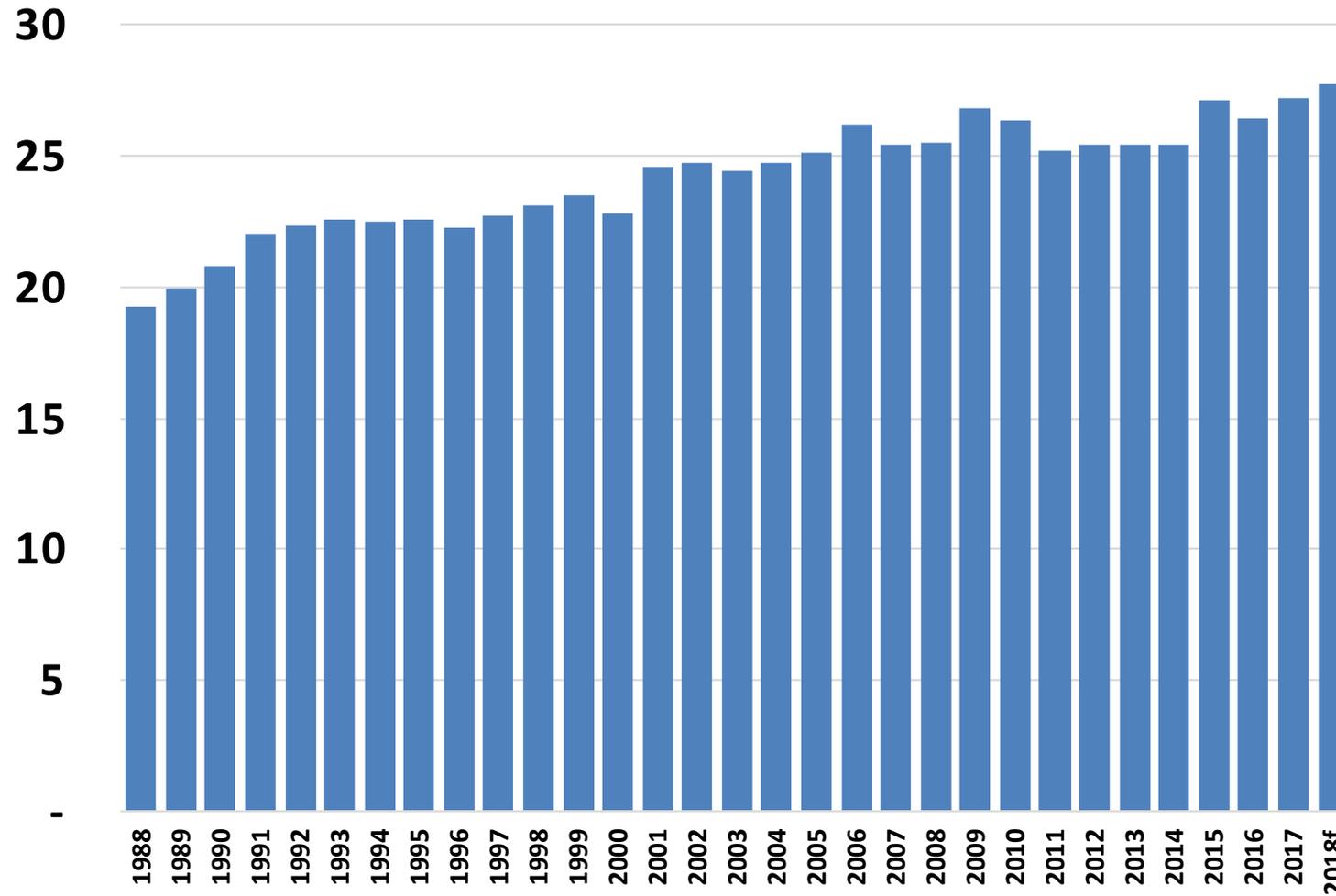
Gas Tax Base

Growth Rate Since 1988



Gas Tax Base

Vehicle Miles Traveled Per Taxable Gallon



Gas Tax Base Lessons

- Motor fuel tax base poorly aligned with economy
 - Taxable gallons does not pace with vehicle miles traveled for many reasons
 - Tax base doesn't adjust for price changes, requiring periodic rate increases to keep even with just CPI inflation
- Misalignment led to concerns about underinvestment in transportation. How was this handled?
 - Earmarking sales taxes
 - Partial tax rate adjustment for previous inflation losses
 - Recent indexing of gas tax rate for inflation going forward

Sales Tax Base Has Changed

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MARKETS

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Inside Amazon's fulfillment center in Hemel Hempstead, U.K., in a 2015 file photo. PHOTO: ADRIAN DENNIS/AGENCE FRANCE-PRESSE/GETTY IMAGES

Decline in US retail sales confounds analysts after tax cuts



Shoppers in America spent 0.1 per cent less last month despite a 0.4 per cent rise being forecast. EDUARDO MUNOZ ALVAREZ/GETTY IMAGES

BUSINESS

What in the World Is Causing the Retail Meltdown of 2017?

In the middle of an economic recovery, hundreds of shops and malls are shuttering. The reasons why go far beyond Amazon.

CNN Money

Stores are closing at an epic pace

by Jackie Wattles @jackiewattles

April 22, 2017, 3:58 PM ET

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Forbes

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What If Retail Traffic Declines Last Forever?

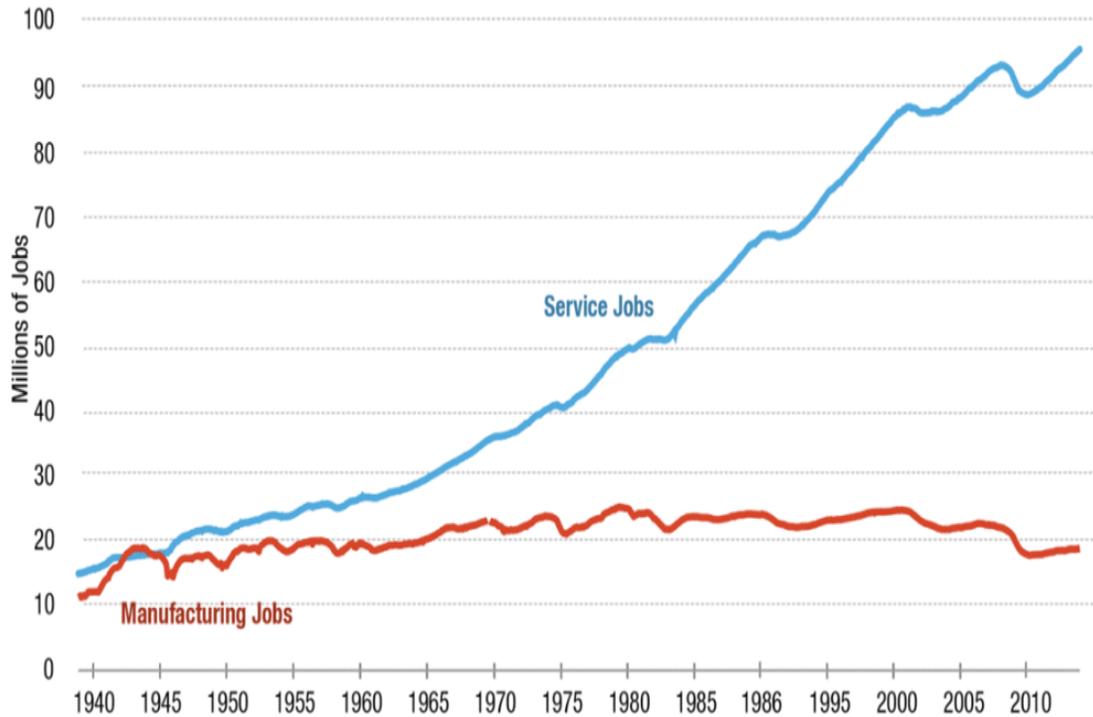


Steve Dennis Contributor
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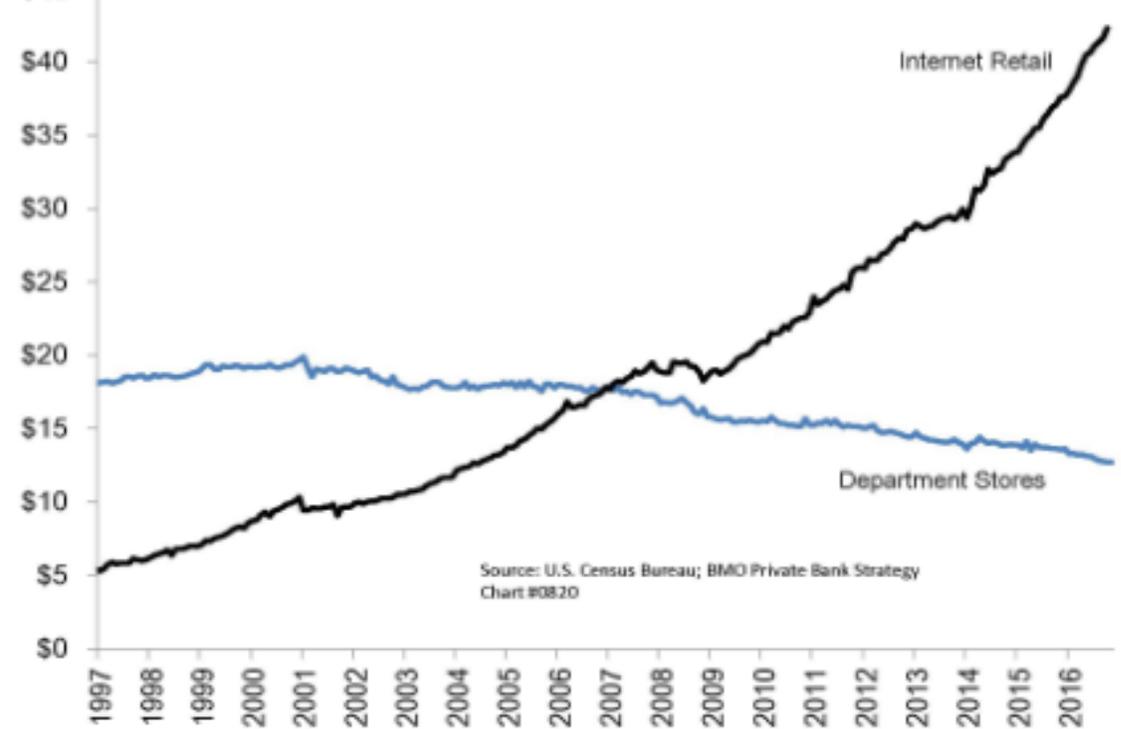
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Sales Tax Base Has Changed

Manufacturing Jobs Stagnate; Service Jobs Boom

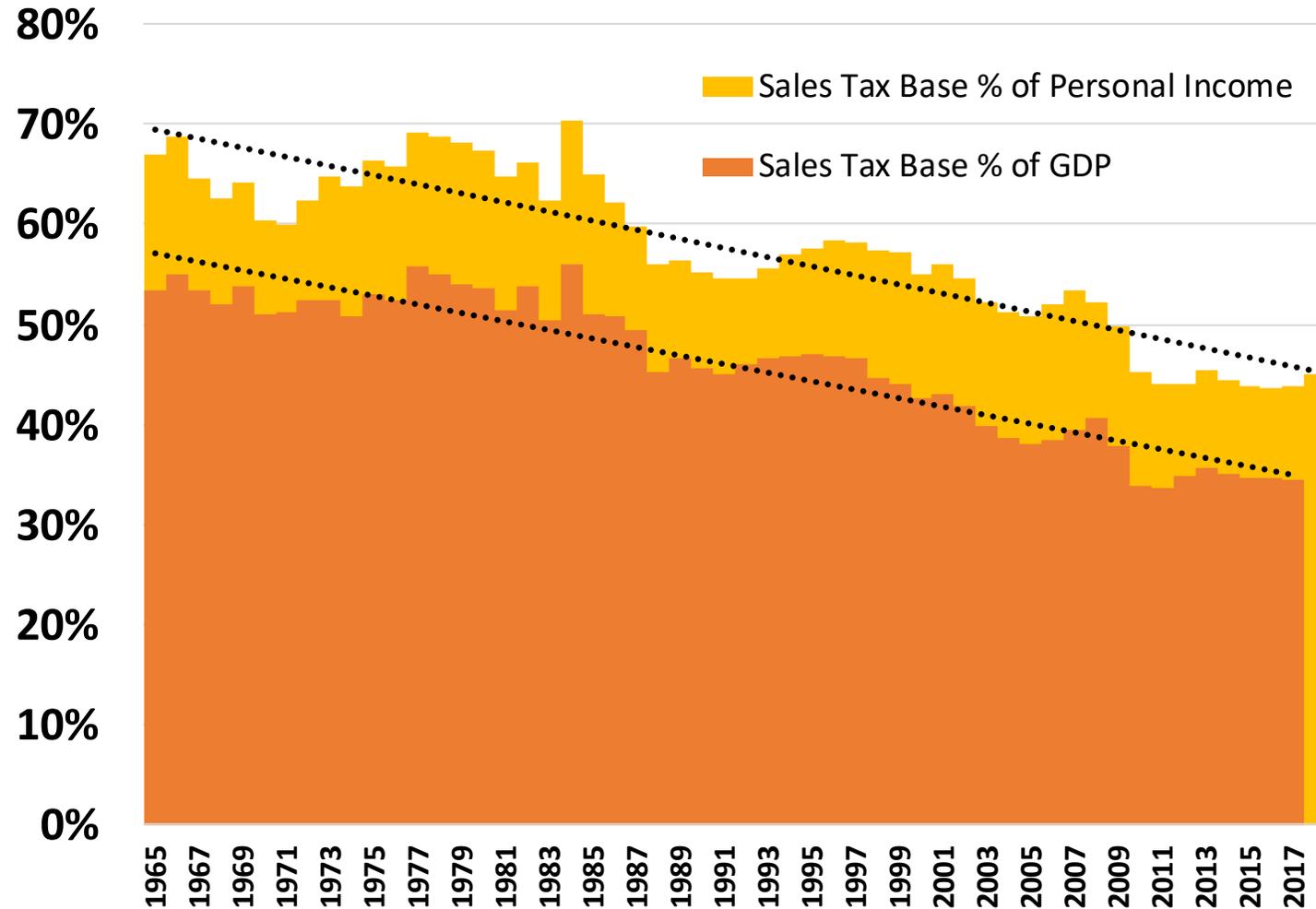


Retail Sales: Online versus Brick and Mortar (in billions)



Source: U.S. Census Bureau; BMO Private Bank Strategy
Chart #0820

Sales Tax Base Poorly Aligned with Economy



Why a Narrowing Sales and Use Tax Base?

Changing purchasing patterns

- Continue to purchase more services relative to goods
- More sharing/renting and less owning
- Since the Great Recession: less spending, higher savings rates, more debt pay down, increased lending regulation, and low wage growth

Demographic changes

- Rising millennials and aging baby boomers

Cross-border shopping

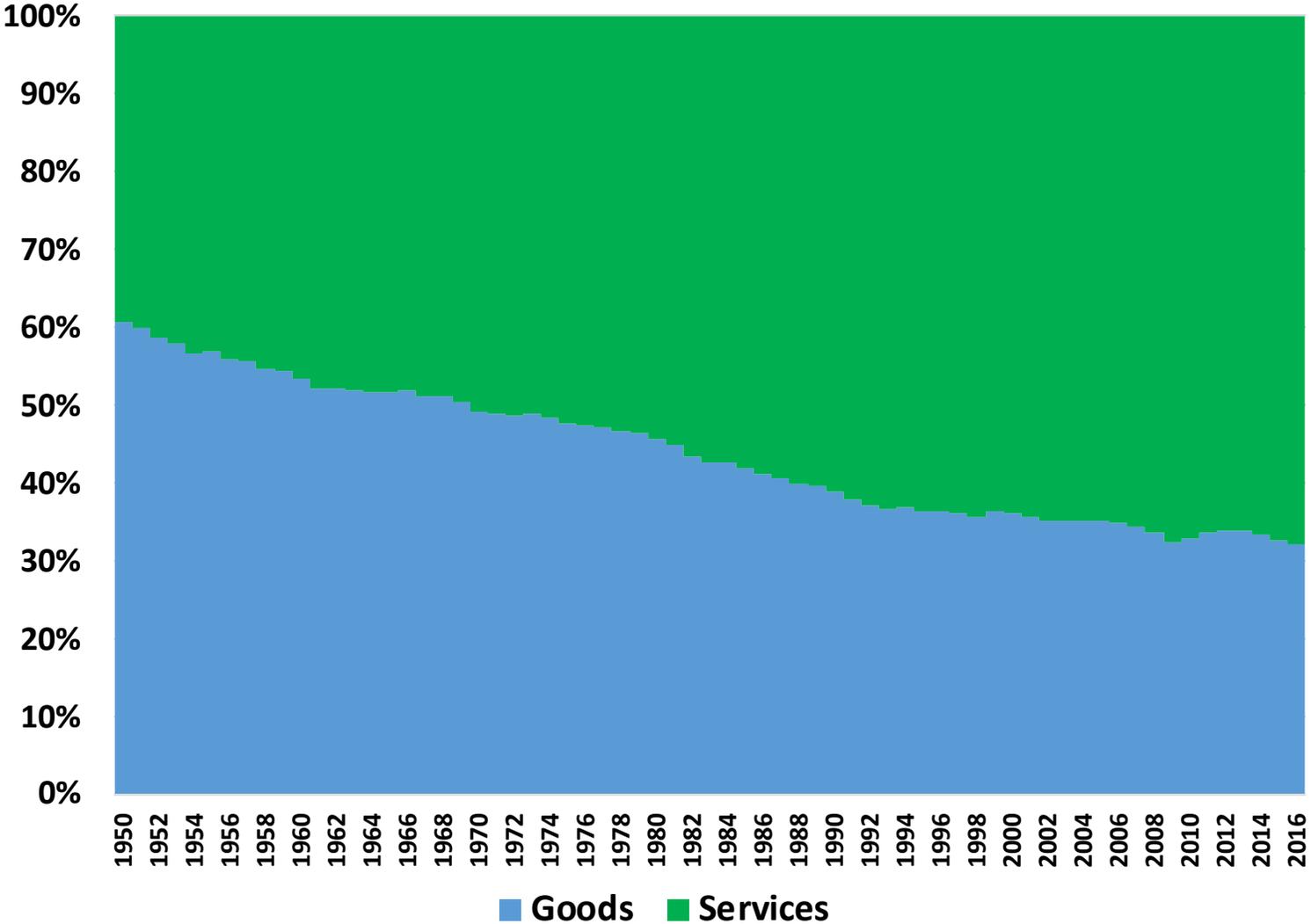
- Internet, phone, and catalogue purchases

Technological change

- Digitization of goods (software, books, music, streamed media)
- New opportunities that make taxing consumption difficult

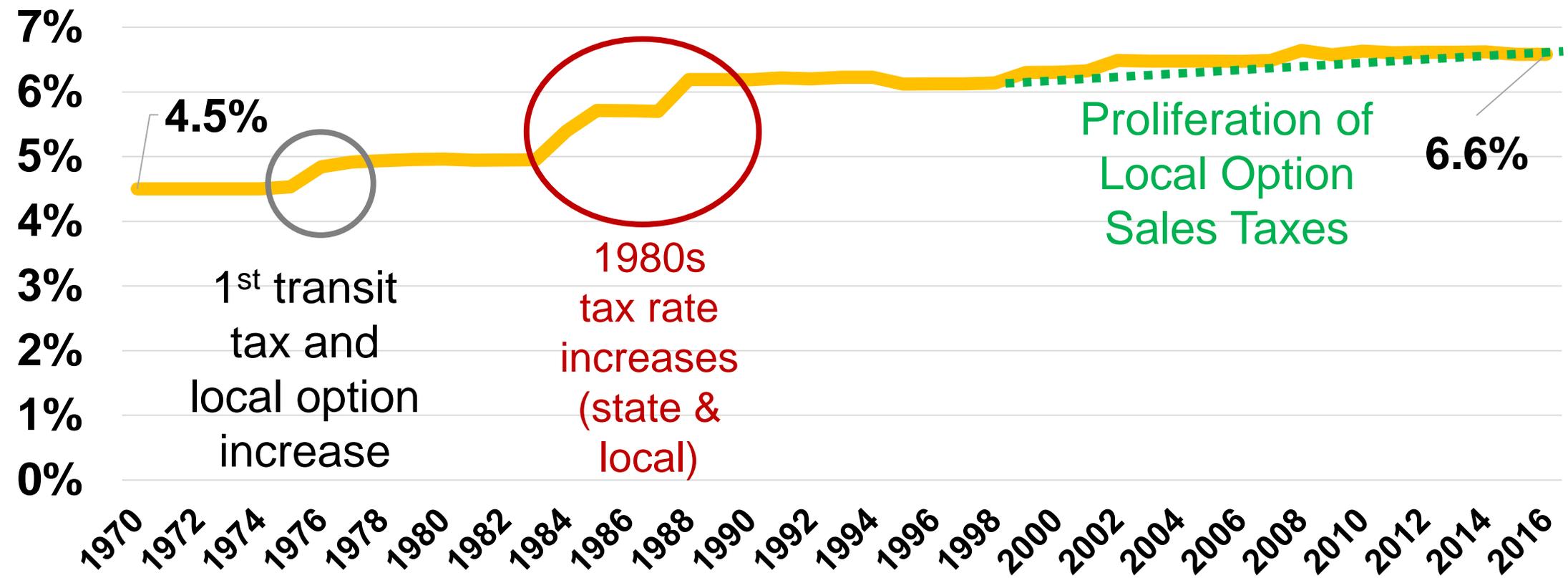
Legislated exemptions

Goods and Services in US Economy



Response To Narrowing Base Has Been To Increase Rates

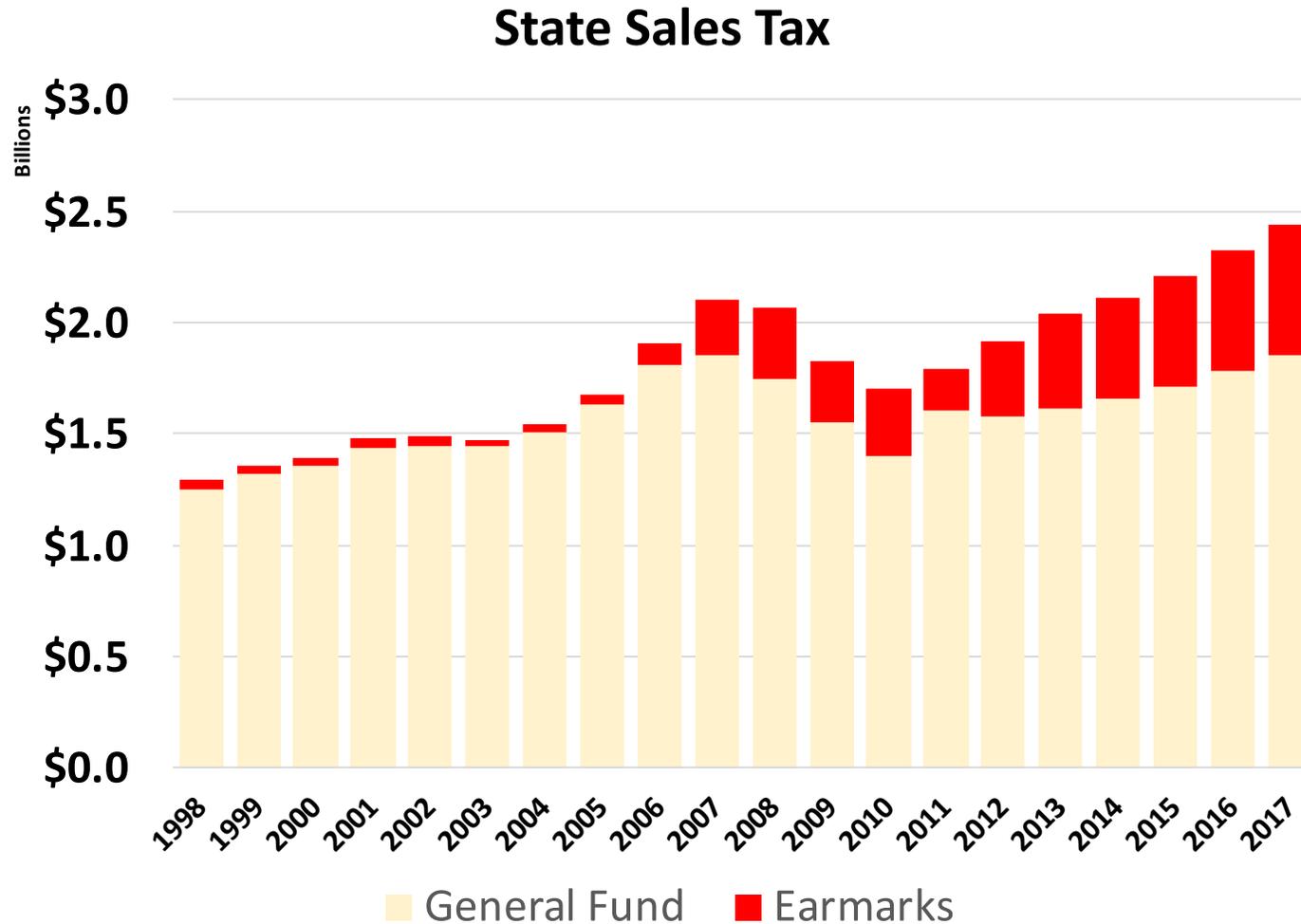
Combined State and Local Sales Tax Rate (derived)



Source: Office of Legislative Research and General Counsel, from Utah State Tax Commission data



Major Portions of State Sales Tax Earmarked



Sales Tax Base Will Continue to Change (Including Transportation Sector)

Technology

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*G.M. Says Its Driverless Car
Could Be in Fleets by Next Year*



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Mark Matousek Jan 23, 2018, 2:21 AM



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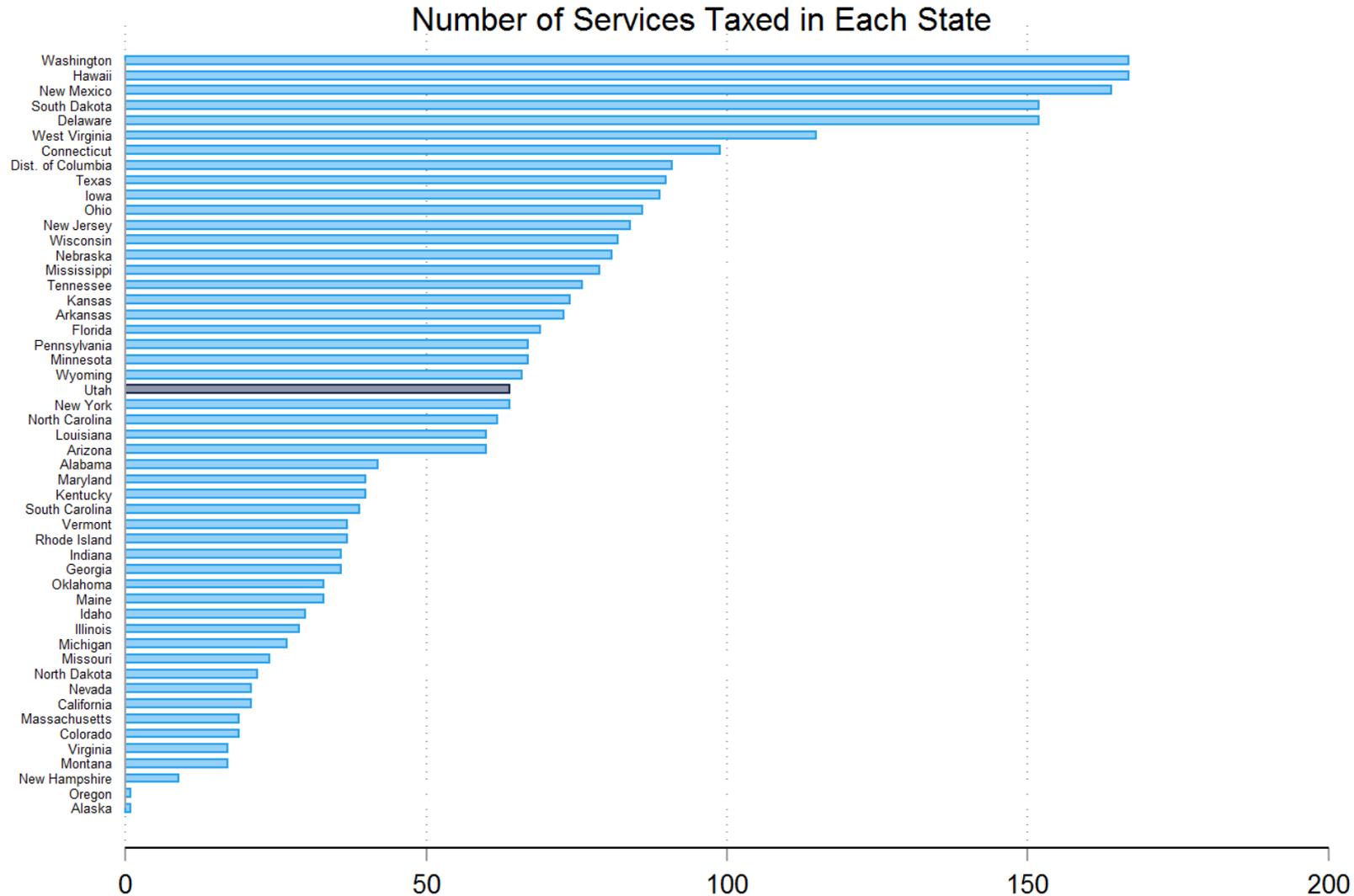
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Climate-Changed

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How Does Utah's Sales Tax Base Compare With Other States?



Source: Federation of Tax Administrators

Sales and Use Tax Base Lessons

- Sales tax base has become less and less aligned with economy
- Although improved remote sales collections will help, sales tax base likely to become less and less aligned with economy over time, including in the transportation sector
- Sales tax is...
 - The primary revenue source for the State's General Fund
 - A larger revenue source for transportation than the state gas tax
 - A key local government revenue source
- Historical response to narrowing base has been to increase rates
- Broadening tax base would allow for lowering of tax rates, improve equity, stability, and tax system neutrality

Questions?

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